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UNCLAS OTTAWA 000755

SIPDIS

STATE EB/TRA (BYERLY), WHA/CAN

TRANSPORTATION FOR U/S POLICY

E.O. 12958: N/A

TAGS: EAIR ETRD CA

SUBJECT: Discount Airline Jetsgo founders, strands passengers

¶1. Passengers at Canadian airports expecting to board Jetsgo aircraft on Friday, March 11 were surprised to find no staff at ticket counters, and no Jetsgo flights operating. There has been no official announcement, but it is expected that Jetsgo will seek bankruptcy protection later today.

¶2. Jetsgo, which began operations in mid-2002, with several MD-90 aircraft, was operating as of yesterday to 19 Canadian and 10 U.S. destinations. Flights to the United States were to Los Angeles, New York (Newark and LaGuardia), Las Vegas, and Sarasota, West Palm Beach, St. Petersburg, Fort Lauderdale, Orlando, and Fort Myers in Florida. Flights to U.S. destinations were carrying principally Canadian vacationers. The airline had about 8 percent of the domestic market share.

¶3. In February 2005 Transport Canada revoked an operating certificate that allowed Jetsgo to fly between 29,000 and 41,000 feet, forcing the carrier to run its flights at 28,000, an altitude less efficient for fuel consumption - which has in turn increased their costs. The revocation was due to Transport Canada concerns about deficiencies in the airline's manuals detailing procedures related to Reduced Vertical Separation Minimum (RVSM). Transport Canada inspectors discovered certain incomplete descriptions in Jetsgo manuals after being alerted about a "missed approach" by a Jetsgo plane landing at Calgary International Airport in late January 2005. In that incident, the aircraft skidded partly off the runway and also hit a sign, prompting a federal Transportation Safety Board investigation.

¶4. The airline also hit a rough spot over this past Christmas when numerous flights were cancelled and passengers' baggage was lost. Nevertheless, in February 2005 the airline acquired new aircraft and added staff and then increased capacity and added routes in western Canada, the home base of WestJet, Canada's successful version of Southwest airlines. Operating on thin margins even at the best of times, that December SNAFU may have put them over the edge. (Financial analysts in February noted that if Jetsgo were to drop out as a rival, then WestJet shares should receive a significant boost in share price.)

¶5. The impact on United States' interests will be felt second hand, that is by how this event affects Transport Minister Lapierre's efforts to generate support for further liberalization of air transport services in Canada. We anticipate that those who are opposed to further liberalization will seize on this opportunity to remark upon the need to wait for better times before liberalizing further. On the other hand, officials at the Air Transport Association of Canada tell us that they continue to support Lapierre's effort and will be linking the failure of Jetsgo to the high civair cost structure in Canada, which includes high airport rents, the security fee and the fuel excise tax.

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